



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

February 8, 2019

Contact: Marlys Gaston
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Auditor of State Rob Sand today released a Report on the Status of Findings and Recommendations from the City of Hartford's Periodic Examination Report dated March 24, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period May 1, 2017 through April 30, 2018.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight. While the City corrected two of the fifteen findings reported in the Periodic Examination Report dated March 24, 2016, and partially corrected three of the findings, ten of the findings are reported as "not corrected."

A copy of the City of Hartford's Report on the Status of Periodic Examination Findings and Recommendations is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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CITY OF HARTFORD

**AUDITOR OF STATE'S INDEPENDENT REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
MAY 1, 2017 THROUGH APRIL 30, 2018**

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City of Hartford

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
James Buzzard	Mayor	Jan 2016	Jan 2020
Kim Crook	Council Member	Jan 2016	Jan 2020
Mark Goldsberry	Council Member	Jan 2016	Jan 2020
William Hammond	Council Member	Jan 2016	Jan 2020
Dana Smith	Council Member	Jan 2018	Jan 2022
Amanda Peterson	Council Member	Jan 2018	Jan 2022
Bradley Herrold	City Clerk/Treasurer		Indefinite
James Nervig	Attorney		Indefinite

City of Hartford



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Rob Sand
Auditor of State

**Auditor of State's Independent Report on the Status of Periodic
Examination Findings and Recommendations**

To the Honorable Mayor and Members of the City Council:

The Office of Auditor of State issued a Periodic Examination Report dated March 24, 2016 on the City of Hartford, Iowa covering the period January 1, 2015 through December 31, 2015 pursuant to Chapter 11.6 of the Code of Iowa. The report included findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report date March 24, 2016 and the current status of the City's implementation of the recommendations included in that report. This report covers the period May 1, 2017 through April 30, 2018.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

The purpose of this report is to report on the current status of the City's implementation of the recommendations included in the Periodic Examination Report dated March 24, 2016. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Hartford during the course of our follow-up procedures engagement. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink, appearing to read "Rob Sand".

ROB SAND
Auditor of State

December 20, 2018

**Report on the Status of Periodic Examination
Findings and Recommendations**

City of Hartford

Report on the Status of Periodic Examination Findings and Recommendations

For the Period May 1, 2017 through April 30, 2018

Findings Reported in the Periodic Examination Report dated March 24, 2016:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:
- (1) Cash – handling, reconciling and recording.
 - (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
 - (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
 - (4) Payroll – recordkeeping, preparing and distributing.
 - (5) Long-term debt – recording and reconciling.
 - (6) Financial reporting – preparing and reconciling.
 - (7) Journal entries – preparing and journalizing.
 - (8) Data processing – operating, inputting, initiating transactions, preparing source documents and correcting errors.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

- (B) Bank Reconciliations – The cash balances in the City's general ledger were reconciled to bank account balances throughout the year. However, no independent review of the bank reconciliations was performed.

Recommendation – An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

Current Status – Not corrected. The recommendation is repeated.

- (C) Monthly Balance Sheet Report – Although the total fund balance reported on the City's June 30, 2015 Annual Financial Report (AFR) agrees with the June 30, 2015 Balance Sheet Report generated by the City's accounting system and the June 2015 bank reconciliation, the fund balances by individual fund do not agree between the AFR and Balance Sheet Report.

Recommendation – The City should establish procedures to ensure computer generated reports are accurate. The City should work with its software provider to determine the cause for the report errors and take immediate action to correct the reports.

City of Hartford

Report on the Status of Periodic Examination Findings and Recommendations

For the Period May 1, 2017 through April 30, 2018

Current Status – Not corrected. The total fund balance reported on the City's June 30, 2017 AFR agrees with the June 30, 2017 Balance Sheet Report and the June 2017 bank reconciliation; however, the fund balances by individual fund do not agree between the AFR and the Balance Sheet Report. The recommendation is repeated.

(D) Payroll – The following were noted regarding payroll:

- Although time cards are maintained for all employees, there was no indication the time cards are reviewed and approved by appropriate supervisory personnel prior to preparation of the payroll. In addition, employees do not sign their own time cards.
- Vacation is not consistently accrued in accordance with the City's policy or employment contracts and vacation and sick leave accruals are not recorded in the City's accounting system timely. Also, vacation, sick leave and compensatory time is not adequately tracked and reviewed by an independent person.
- Approval of salary and wages for City employees is not documented in the City Council meeting minutes. In addition, annual salary increases for City employees were approved based upon a percentage increase and the actual approved wages were not documented.

Recommendation – Time cards and vacation, sick leave and compensatory time should be reviewed and approved by appropriate supervisory personnel prior to preparation of payroll. The approval should be documented by the signature or initials of the reviewer and the date of the review. Vacation, sick leave and compensatory time should be properly tracked and recorded in the accounting system timely. The City should adhere to its policy for vacation accruals. Approval of salaries for employees should be adequately documented in the City Council meeting minutes.

Current Status – Partially corrected. During the period reviewed, time cards were signed by employees and were reviewed and approved by appropriate supervisory personnel. On April 17, 2018, the City Council approved a resolution authorizing employee salaries for fiscal year 2019. The resolution properly included actual approved wages rather than a percentage increase. However, vacation, sick leave and compensatory time was not consistently accrued or recorded in the City's accounting system timely. Also, vacation, sick leave and compensatory time was manually entered into the accounting system and was not adequately tracked or reviewed by an independent person. This recommendation is partially repeated.

(E) Fire and Rescue Compensation – In accordance with Chapter 35 of the City Code of ordinances, "the Fire Chief shall be paid five hundred dollars per year, payable every six months". The Fire Chief was paid a total of \$1,000 for the year, which is not in accordance with the City's ordinance.

Recommendation – Compensation should be paid in accordance with the City ordinance. The City should consult legal counsel to determine the disposition of this matter, including seeking reimbursement for the \$500 improperly paid to the Fire Chief.

Current Status – Not corrected. During the period reviewed, the Fire Chief was paid \$500 every six months in violation of the City's ordinance. The recommendation is repeated.

City of Hartford

Report on the Status of Periodic Examination Findings and Recommendations

For the Period May 1, 2017 through April 30, 2018

- (F) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, public works and debt service functions prior to the budget amendment. Disbursements at year end exceeded the amounts budgeted in the public safety, public works, general government and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

In addition, per Chapter 384.16(3) of the Code of Iowa, the City shall publish notice of the public hearing on the budget not less than ten nor more than twenty days before the hearing. Notice of public hearing for both the original and amended budget were not published in accordance with the Code of Iowa.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. In addition, public notice and the budget amendments should be published in accordance with the Code of Iowa.

Current Status – Partially corrected. Budgeted disbursements during fiscal year 2017 were not amended. However, disbursements at year end exceeded the amounts budgeted in the public safety, general government and debt service functions. The public notice for the fiscal year 2017 budget was published in accordance with Chapter 384.18.

- (G) Change/Petty Cash Fund – The City maintains a change/petty cash fund for which no authorization could be located. In addition, the City’s change/petty cash fund was not included in the City’s accounting records and resulting fund balances.

Recommendation – The change/petty cash fund should be formally authorized by the City Council and should be maintained on an imprest basis to provide additional control over the fund. Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City funds and accounts, including the change/petty cash fund, should be included in the City’s accounting records and resulting fund balances.

Current Status – Not corrected. The recommendation is repeated.

- (H) Financial Reporting – We identified a material amount of receipts posted to an incorrect fund in the City’s accounting system. Adjustments were subsequently made by the City to properly report these amounts in the Annual Financial Report.

Recommendation – The City should implement procedures to ensure all receipts are properly classified and recorded in the City’s accounting system.

Current Status – Corrected. The City correctly implemented procedures to ensure the franchise fee receipts were properly classified and recorded in the City’s accounting system.

City of Hartford

Report on the Status of Periodic Examination Findings and Recommendations

For the Period May 1, 2017 through April 30, 2018

- (I) Official Depositories – A resolution naming the official depositories has been approved by the City. However, the maximum deposit amount stated in the resolution was exceeded during the period January 1, 2015 through December 31, 2015.

Recommendation – A new resolution with amounts sufficient to cover anticipated balances should be adopted by the City Council.

Current Status – Corrected. The City Council adopted a new depository resolution on April 19, 2016 with amounts sufficient to cover anticipated balances. During the period reviewed, maximum deposit amounts were not exceeded.

- (J) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires all cities to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of Treasurer of State annually. The City did not remit all outstanding obligations held for more than two years to the Office of Treasurer of State annually.

Recommendation – Outstanding obligations should be reviewed annually and amounts over two years old should be remitted to the Office of Treasurer of State annually, as required.

Current Status – Not corrected. The recommendation is repeated.

- (K) Restrictive Endorsement – Checks were not restrictively endorsed immediately upon receipt.

Recommendation – To safeguard collections, checks should be restrictively endorsed immediately upon receipt.

Current Status – Not corrected. The recommendation is repeated.

- (L) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

City of Hartford

Report on the Status of Periodic Examination Findings and Recommendations

For the Period May 1, 2017 through April 30, 2018

- (M) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for four meetings tested were not published within fifteen days. In addition, the City did not publish annual gross salaries for the year ended December 31, 2014 as required by Chapter 372.13(6) of the Code of Iowa and an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes within fifteen days, as required. In addition, the City should publish annual gross salaries as required by the Code of Iowa and the Attorney General's opinion.

Current Status – Not corrected. During the period reviewed, three of four minutes tested were not published within fifteen days and the City did not publish annual gross salaries for the year ended December 31, 2017. The recommendation is repeated.

- (N) Computer System – The following weaknesses in the City's computer system were noted: The City does not have written policies for:

- Requiring password changes because software does not require the user to change logins/passwords periodically.
- Requiring computers to have a log off function when not in use.
- Requiring system back-ups to be stored offsite.
- Requiring backups to include all programs and files.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over its computer system. Also, a written disaster recovery plan should be developed.

Current Status – Not corrected. While the City has implemented changes to address the bulleted weaknesses noted above, the City has not developed written policies to address them. In addition, the City has not developed a written disaster recovery plan. The recommendation is repeated.

- (O) Financial Condition – The June 30, 2015 AFR reported the City had deficit balances of \$11,473 and \$1,723 in the Capital Projects and Debt Service Funds, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.


Current Status – Partially corrected. The June 30, 2017 AFR reported the City had a deficit balance of \$1,051 in the Debt Service Fund; however, a deficit balance was no longer reported in the Capital Projects Fund.

City of Hartford

Staff

This engagement was performed by:

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